

A&P

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“In a year that saw sales actually increase despite the closing of some 1,400 stores, special tribute must be paid to one of our most valuable assets—the store manager.”

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To Our Stockholders:

In the 12 months since our last annual report, nearly every significant aspect of this very large organization has been touched by change. All of our A&P people are responding magnificently to these dramatic shifts in policies and procedures. Our customers, by doing more business with us than ever before, also support the soundness of our redevelopment strategies.

Our continuing objective is to establish a firm foundation for future growth and profitability. This year, we expect to refine our programs, develop our systems, and continue the re-orientation of our employees. In short, our goal is to have A&P become a stronger, healthier, more profitable company for our stockholders, a more attractive place for our customers, and a better place to work for our employees.

While a significant part of the transition is behind us, there remains a great deal of work to be accomplished. The future looks much brighter for this Company than it has in a great many years.

What changes have been made, and how have they affected results? In sequence, the first important action was to create a new management team that represents a balanced blend of seasoned A&P executives plus additional people of proven capability recruited from outside the Company.

Our contingent of corporate officers includes a large number of A&P veterans, including

several who were advanced to the officer rank during the past year, as well as others who are new to the Company. The average age of our officers is 50.

Paralleling these management changes, our field units were restructured to provide a greater degree of operating autonomy at the local level. A total of 5 regional units operating 3,468 stores and related support facilities at the beginning of the year was restructured into 7 regions and a separate Canadian company operating 2,074 stores. Where a year ago we had 31 divisions within these regions, we now have 28.

In 9 operating divisions where the number of stores remaining after the closings made it uneconomical to operate our own warehouses, we contracted with outside wholesalers to supply some 400 stores. We also scaled down our manufacturing operations with the closing of 36 food processing plants and warehouses.

The plan announced over a year ago to close marginal and unprofitable stores, along with some support facilities, was completed ahead of schedule and well below estimated cost. (All told, we closed 1,433 stores, including 137 units due to normal attrition, and are in the process of closing another 52.) Notwithstanding additions to the original plan, we were able to make a net reversal of \$35 million from the \$200 million reserve created to absorb these costs. This, together with an adjustment of deferred taxes amounting to \$7.2 million despite operating losses in the first three quarters, produced net income of \$4.3 million, or 17 cents

per share, compared with a net loss of \$157.1 million, or \$6.31 per share after establishment of the facilities closing reserve in fiscal 1974.

In a broadscale construction and refurbishing program undertaken during 1975, we opened 91 large supermarkets. Still others were delayed in the pipeline or cancelled after close study showed they were not likely to produce our projected sales volume in a reasonable period of time. Some 55 new stores are being added this year.

In addition to building entirely new stores ranging up to 35,000 square feet, we undertook a continuing program to repaint, relight and generally refurbish our stores. We also enlarged 32 stores. With improved layouts, new fixtures, revamped merchandising and a vigorous program to keep our stores clean and attractive, the customer response has been heartening.

Our average store sales volume per week climbed steadily to \$64,000 for the fourth quarter as compared with \$37,300 at the end of the last fiscal year. The average weekly volume of stores opened in the past year has advanced even more dramatically, to \$87,000. Equally important, the average sale per customer has increased to \$8.61 from \$7.58, of which about 63 cents was caused by higher prices. Our average store size has expanded to 18,900 square feet from 16,100 a year ago.

Sales for fiscal year 1975 totaled \$6,537,897,000, down 5 percent from the \$6,874,611,000 of the previous

Comparative Highlights

(Dollars in thousands except per share figures)

For the fiscal year	1975	1974	1975 contains 53 weeks; 1974 contains 52 weeks.
Sales	\$6,537,897*	\$6,874,611	*Excluding sales of stores scheduled to close.
Net income (loss)	4,314	(157,071)	
per share	.17	(6.31)	
per cent of sales	.07	(2.28)	
Additions to property	65,880	80,363	
Number of stores	2,074	3,468	



year, when there were approximately 1,400 more stores. The combined sales of all stores, including those closed during the year, were a record high for the Company of some \$6.9 billion. Although, of course, the 1975 period benefited from an extra week of sales.

One of our four broad goals for 1975 was to make more effective use of our human resources. We began by realigning our management and changing the emphasis as between decentralized and centralized authority. We are decentralizing many of the day-to-day operating decisions to bring them as close to the point of sale as possible, centering greater authority and accountability at the regional, divisional and store levels.

At the same time, various departments and subsidiary companies

serving the entire chain were made part of our headquarters operation. These include real estate and engineering, warehousing and transportation, management information systems, Compass Foods, which handles sales of A&P products to others and Super Market Service Corporation, which supplies health and beauty aids, housewares, and soft goods to A&P supermarkets.

We also initiated a company-wide retraining program to improve performance at all levels. This program includes basic store-focused sessions directed at employees from stockroom to checkout counter to acquaint all A&P store employees with the Company's consumer service standards. Personnel from our operating units who have been put through the training program are now working on a continuing basis to train others at store level.

The effectiveness of the training effort is being enhanced through personal contact, memoranda, and training films. The paramount point we make to all employees is that the success of the redevelopment program hinges on our treatment of customers in our stores.

These efforts to improve operating efficiency, place our stores in more desirable locations, make them more attractive and pleasant places in which to shop, and promote them with a new and stronger advertising program, would accomplish little if the merchandise available did not also appeal to our customers. Consequently, we have undertaken major changes in the merchandising of our stores and have created a new merchandising department in each of our operating divisions. The new results-oriented structure will enable us to respond more quickly and effectively to each new merchandising opportunity, and to be continuously more responsive to consumer needs.

Because of our new merchandising strategies, our ability to respond to the introduction of important new products is being greatly accelerated. We are now getting such products into our stores and on display much sooner than in earlier years. We have also achieved a significant improvement in the availability of advertised items.

We are placing more emphasis on national brands because we are dedicated to giving the consumer a full choice. We will, of course, continue to promote our own brands aggressively, while letting the consumer make the choice.

We are substantially increasing the proportion of general merchan-

Grant C. Gentry, President
Jonathan L. Scott, Chairman
Robert F. Longacre, Vice Chairman

Sales Progress at a Glance

	1975	1974
Sales per square foot (selling area)	\$ 5.13	\$ 3.16
Average weekly sales per store (4th quarter)	\$64,000	\$37,000
Average sales per customer	\$ 8.61	\$ 7.58

dise in our stores, utilizing some of the finest general merchandise distribution facilities in the industry. We have assembled a talented group of people from throughout the food industry with proven expertise in the sale of general merchandise.

In our prototype stores—in the 32,000 square-foot range—we will be devoting as much as 27 percent of our shelf space to general merchandise, which is much deeper than ever before. We have developed a new store plan for general merchandise, and in those stores where it has been implemented, we have doubled general merchandise sales, thereby adding to the product mix.

We have introduced more flexibility in store hours. As of the end of the fiscal year, we had about 500 stores open 24 hours a day, or about 24 percent. With more women working today than ever before, this represents a real consumer service. At the same time, some stores that were previously open around the clock have experimented with shortening their hours where consumer use dictated. We will continue to tailor our service to suit the needs of each particular market and the needs of the consumer.

Our pricing policies are vitally important in generating the consumer response we want to achieve. Our policy is to be fully competitive. To meet competition in any relevant market, we are prepared to meet the individual eccentricities of those competing for the customers' business.

Our new advertising campaign has been a success, not only in helping to create sales but also in its other objectives, some of which involved our own employees, and others the general attitude of consumers toward

our stores. It has done a splendid job for us internally by reinforcing other communications and training programs. Externally, it has helped improve the Company's credibility. We are concentrating more heavily on television than in the past. The "Price" element appeals to the Spartan ethic, while the "Pride" invokes the modern consumer's concern with quality, shopping in an attractive place, and service.

As a constant reminder to store employees—and to customers—that A&P is committed to providing economy, quality and service, the Company continues to post its 10-point "operating philosophy" prominently in every store. In this public pledge to the consumer, we guarantee: safe and healthful products, courteous service, cleanliness, product freshness, product satisfaction, variety of choice, honest value, full product information, shopping convenience, and precise standards in cutting and trimming meats.

Early in the fourth quarter, your Company signed a \$200 million credit agreement with a consortium of 11 banks to enable us to move forward with our redevelopment program. Under this agreement, we may borrow up to \$150 million on a revolving credit arrangement. In addition, an existing revolving credit agreement was converted in part into a \$50 million, 7½-year term loan.

Under terms of the agreements, we may not pay a dividend until net income, exclusive of income from reductions of the closing program reserve, has been realized in four consecutive quarters. Thereafter, aggregate dividend payments may be up to 15 percent of net income earned

after Feb. 28, 1976. After February, 1978, aggregate dividend payments may be up to 30 percent of net income earned after Feb. 28, 1976.

Signing of this substantial credit agreement, we believe, is tangible evidence of the financial community's faith in the long-term viability of our redevelopment program.

We are exceedingly grateful for the support and encouragement we have received from our employees, our stockholders, our suppliers and our customers. In a year that saw sales actually increase despite the closing of some 1,400 stores, special tribute must be paid to one of our most valuable assets—the store manager.

In closing, a full measure of thanks and gratitude is extended to R. Manning Brown, Jr., who has served on our Board since the Company went public in 1958. Mr. Brown is not standing for reelection. All of us deeply appreciate the unstinting guidance and encouragement he has provided as one of the longest-serving outside directors of our Board.

While the past year has been challenging, it has also been a rewarding one in the sense of setting and attaining urgent goals. Our long-term commitment is to restore A&P to a posture of sustained profitability. With your continued support, we are confident that goal can be reached.



Jonathan L. Scott
Chairman and
Chief Executive Officer
May 13, 1976



1

A store manager is many things to many people.

A&P views the manager as a guardian of corporate good will and as a key factor in the Company's future goals, with responsibility for selecting, training, and counseling the employees who serve as "co-hosts" in A&P stores. In the words of the late John Hartford, a son of the A&P founder: "Every customer entering an A&P store must be able to buy with full confidence and in the knowledge that we not only want to give her all that she is paying for, but that, in addition, we will take the time and care to see that she receives it." To the degree that the manager or any store employee disappoints a customer, the reputation of A&P is damaged.

Store employees expect their manager to be firm and fair, knowledgeable and instructive, enterprising and innovative.

Stockholders see the A&P manager as an executive responsible for operating a supermarket at a profit.

Consumers feel the manager is A&P. The energies and resources of thousands of A&P specialists in warehousing, manufacturing, transportation, food testing, finance, and other essential services are, in point of fact, directed toward assisting the manager to better serve the consumer.

As fiscal year 1975—our "Year of the Manager"—drew to a close, a cross section of A&P managers was asked to assess their jobs. Following is a distillation of their observations:

"A manager must have the experience to detect the slightest thing wrong in a store—and the acquired skill to get it corrected in a hurry..."
William Dunn, Park Ridge, New Jersey

This is the twelfth store I've worked in during my 34 years with A&P and I've learned something of value in every one of them. You can't afford to stop learning in this business because today's supermarket is a lot of enterprises rolled into one. You've got to be innovative and always prepared to make changes quickly in response to shifting consumer tastes. A manager must have the experience to detect the slightest thing wrong in his store operation—and the acquired skill to get it corrected in a hurry. Perseverance will pay off in customer response. That's one of the big reasons I like this business—the fact that you can observe the results of your work. Not simply in increased sales, but in the positive reaction of customers. I think that the average shopper in a big suburban supermarket like this expects a good deal more service than her counterpart in a city store. Having gone to the trouble and expense of driving some distance to shop, she's prepared to devote a longer period of time to getting what she wants. When she leaves our checkout counter with a week's supply of groceries in her cart, knowing that we've done everything possible to make her trip worthwhile . . . then I can be certain I'm doing my job.

1 With a bountiful produce display as a backdrop, a lovely shopper and child brighten the day of Gary Arbuthnot, personable manager of an A&P near Montreal, Quebec.

2 Adding arcs of color to the evening sky, the new A&P logo signals round-the-clock shopping convenience to customers at our store in Lodi, New Jersey. Some 500 A&P stores now offer 24-hour service.

3 Early morning finds Manager Maryann Reinhardt making certain that advertised specials are in plentiful supply on shelves of her A&P on New York City's Third Avenue.

4 An A&P supermarket is a meeting ground for all ages and cultures.





1

"A manager must be dedicated to giving customers a complete range of first-quality merchandise, particularly in perishable departments like meat and produce."

Sam Wilson, Gary, Indiana

A manager has to be an excellent organizer and planner, making certain that store shelves are constantly stocked with a full line of merchandise. It's his job to see to it that department heads order the right merchandise in the proper quantity, at the correct time. With thousands of different products in stock, it's important that he maintain a full supply without overloading his limited storage facilities. A manager must be dedicated to giving customers a complete range of first-quality

merchandise, particularly in perishable departments like meat and produce. If a customer is dissatisfied with anything bought in an A&P store, the manager must quickly and cheerfully refund the purchase price. So he makes it a practice to inspect departments in his store throughout the day, walking from counter to counter, taking a real good look at everything. He can't assume that it's going to be all right, that the produce is going to be fresh and the meat packaged with the best side down; it's his job to make sure of all these things. When a manager's on top of his operations at all times, he's running a good store.

"An experienced manager can walk into any chain store and almost instantly sense if it's well run..."

Gary Arbuthnot, Montreal, Quebec

After managing stores for a while, you acquire a feel for a good operation. An experienced manager can walk into any chain store and almost instantly sense if it's well run. It's a blend of many things. A clean, bright facility naturally appeals to customers, as do cheerful and helpful employees. But there has to be more than an image. You've got to deliver in the way of service to get customers back again and again. An effective manager surrounds himself with assistants dedicated to pleasing customers. Of prime importance is a competent head cashier, one who is consumer oriented. She'll know instinctively, for instance, when to cash checks rather than holding to some arbitrary policy that drives customers away. She'll work closely with the manager and be capable of handling all situations in the front end of the store pleasantly and expeditiously. With personnel of this calibre throughout the store, a manager can build lasting good will. I practically grew up with A&P. My mother was a cashier for 15 years in Ontario and I went to work in an A&P in Montreal after finishing high school. The store my mother worked in had only about 4,000 square feet of floor space, as compared to this new 34,000 square-foot unit of mine. Stores like this are helping us win back the young people. They're coming here in droves, partly because our price structure is good and we give them a bright, pleasant place to shop, but more importantly because our people are constantly responsive to their needs and go out of their way to make them feel welcome. . . .

1 Busy times, Manager Sam Wilson greets customers "up front" in his Gary, Indiana, store.

2 A tantalizing delicatessen display gets an admiring once-over.

3 Discerning shoppers keep managers on their toes.

4 Manager Bill Dunn's busy rounds include an occasional "look-in at the checkout" of his Park Ridge, New Jersey, store. The busy cashier is Penny Nichols.

5 "You be sure to come back again, y' hear?" says Manager Bob Evans to a pleased customer in his Fort Lauderdale, Florida, store.

6 And now for the salad course.



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"Call it motivation or whatever you want, but when you say, 'All right, let's go!' you've got to know your people take pride enough in their work to pitch right in and get the job done..."

Robert Evans,
Fort Lauderdale, Florida

A manager in a 33,000 square-foot store like mine will walk many miles a day—from dairy counter to meat department to deli to produce to health and beauty aids and so on—inspecting merchandise, tallying supply, conferring with department heads, assisting customers. Every department, from the checkout stand up front to the loading dock out back, is the responsibility of some individual. I try to be as fair as possible and still get the best out of every employee. Call it motivation or what-

1 Vacationers are numerous in Bob Evans' Fort Lauderdale, Florida, store.

2 Manager Bill Dunn, Park Ridge, New Jersey, with cashier and young shoppers.

3 "Now, I wonder what these will weigh?"

4 General merchandise sales are about to rise.

5 "It seems to me there was something else I needed from dairy."



3

ever you want, but when you say "All right, let's go!" you've got to know your people take pride enough in their work to pitch right in and get the job done. Many customers in a resort area like this seem to be saying "Look, we don't have any time to waste now that we're on this expensive vacation. Get us in and get us out." So you've got to be on the move all the time. And you find a lot of customers from Chicago and New York, say, who are used to getting things at home that they don't find here. We go out of our way to accommodate them, and this adds to the satisfaction of running a store. Every Saturday night, as I review the week, I reawaken to the fact that the only thing that truly distinguishes our store from others in town is the individual commitment of each of us to doing a better job in the week ahead. . . .

6 Pat Jordan, manager of our store at 68th and Broadway, New York City, helps a customer with a floral selection.

7 Beauty in the shopping line.

8 A youngster accepts a sample from Manager Mario Scavello in our Grand Street store in New York City.

"You've got to be able to work well with all kinds of people—customers, suppliers, employees, everyone who comes into your store..."

Maryann Reinhardt, New York City

I take the greatest satisfaction in assisting people with their shopping needs. Some, I'll admit, are hard to please, while others appreciate what you're doing and take the time to say so. They're the ones who in a single comment can make your whole day. I try to keep my associates as enthusiastic as I am. I started with A&P as a part-time clerk when I was a college sophomore, intending to stay a few months to earn vacation spending money. I became a cashier and helped in the delicatessen department. Then I worked as a bookkeeper and loved it. I have a knack for working with figures. When I received my college degree, I was asked if I'd care to take the assistant manager's course. I thought: "What are they talking about? Are they serious?" I mean, there just aren't that many women managers working for any food chain. Well, I worked as assistant manager for several stores before taking over this one a few months ago and I still think it's great. People ask me if it's more difficult for a woman to be a manager. Really, as long as you know your job, give helpful advice, are courteous . . . in other words, if you can do all those things that make customers enjoy shopping in your store, you've got it made. You've got to be able to work well with all kinds of people—customers, suppliers, employees, everyone who comes into your store. . . .



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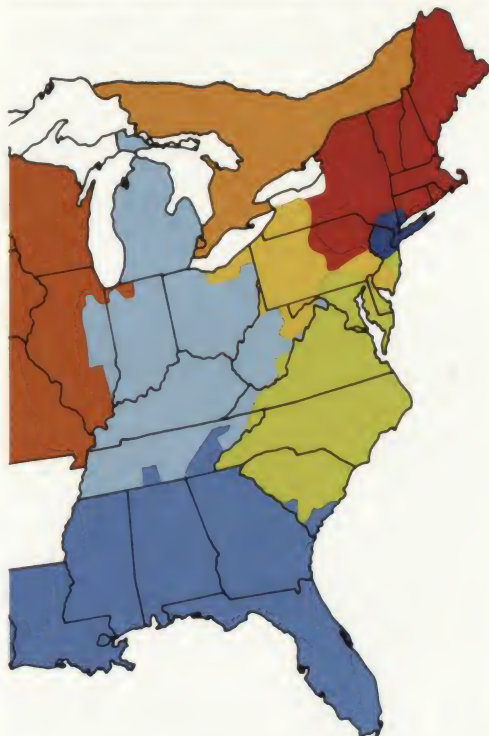
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The Regions

As the result of a sweeping re-organization of our vast field network during fiscal 1975, day-to-day operating decisions are now being made at the most appropriate level of the Company.

At the start of the year, A&P operated 3,302 stores in the U.S. and 166 in Canada, centered in 5 regions and 31 divisions.

Under the new structure, the Company operates 1,957 stores located in 7 regions and 28 divisions

■ Northeastern Region
■ Metro Region
■ Keystone Region
■ Atlantic Region
■ Southern Region

in the U.S. and 117 stores out of a separate company in Canada.

Four of the regions and the Canadian company are headed by veteran A&P executives, while activity in three others is directed by top marketing experts recruited from other food chains. Each of these executives has had broad experience in the management of supermarket operations.

Thumbnail sketches of the new field organization and the regional presidents follow:

■ Central Region
■ Mid-Western Region
■ The Great Atlantic & Pacific Tea Company of Canada, Limited

Mid-Western Region

Divisions: Chicago, Kansas City, Milwaukee and St. Louis.

202 stores in Illinois, Indiana, Iowa, Kansas, Michigan, Missouri and Wisconsin.



Robert T. Blade, corporate vice president and regional president, joined A&P in 1945 in Chicago and has served with the company in various capacities since then. He was named vice president and general manager of the Indianapolis Division in 1973, president of the Western Region in 1974, and was elected corporate vice president in 1975.



Metro Region

Divisions: Bronx, Long Island, Newark and Paterson.

373 stores in Connecticut, New Jersey and New York.

John J. Cairns, Jr., corporate vice president and regional president, began his career with A&P in 1942, at the age of 15, working part time in various store and warehouse jobs. He held many positions in the field through the years, coming to national headquarters in 1964. He was named national sales director in 1968, was elected corporate vice president-merchandising in 1970, and assumed his present post in May, 1976.

The Great Atlantic & Pacific Tea Company of Canada, Limited

Operates 117 stores in the Provinces of Ontario and Quebec.



Frederick C. Kennedy, corporate vice president and president, Canadian company, began his career with A&P 37 years ago in Windsor, Ontario. A native of Canada, he held various management posts in our Canadian operations before being named chairman and president of the Canada Division in 1970. He was named president of the separate Canadian company on its formation last year.



Atlantic Region

Divisions: Baltimore, Charlotte, Raleigh and Richmond.

361 stores in Delaware, Georgia, Maryland, North Carolina, South Carolina, Tennessee, Virginia, Washington, D.C. and West Virginia.

John J. Miles, corporate vice president and regional president, came to A&P in June, 1975 from Grand Union Company, where he had been vice president of their Southern Region. He had served in a number of management posts since joining that company in 1949 at the age of 19.

Northeastern Region

Divisions: Albany, Boston, Scranton and Springfield.

208 stores in Connecticut, Maine, Massachusetts, New Hampshire, New York, Pennsylvania, Rhode Island and Vermont.



Frank R. Olivito, corporate vice president and regional president, joined A&P in July, 1975. He entered the chain store business in 1945, serving successively in various management positions with Wakefern Food Corporation, Supermarkets General Corporation, Allied Supermarkets Corporation, Grand Union Company, and most recently as executive vice president and chief operating officer of Loblaw, Inc.



Central Region

Divisions: Columbus, Detroit, Indianapolis and Louisville.

265 stores in Illinois, Indiana, Kentucky, Michigan, Ohio, Tennessee and West Virginia.

Lowell A. Peters, corporate vice president and regional president, came to A&P in April, 1975 from Jewel Companies, Inc. where he was regional vice president in Wisconsin. Prior to joining Jewel, he served with National Tea Company for 18 years.

Keystone Region

Divisions: Altoona, Cleveland, Philadelphia and Pittsburgh.

297 stores in Delaware, Maryland, New Jersey, New York, Ohio, Pennsylvania and West Virginia.

Thomas F. Sheridan, corporate vice president and regional president, began with A&P in 1948 at the age of 21 and has spent his entire career with the company. He was named vice president and general manager of the Paterson Division in 1973, president of the Central Region in 1974 and was elected a corporate vice president in March, 1975.



Southern Region

Divisions: Atlanta, Birmingham, Jacksonville and New Orleans.

251 stores in Alabama, Florida, Georgia, Louisiana, Mississippi, South Carolina and Tennessee.



Robert L. Spencer, corporate vice president and regional president, began his career with A&P in 1934 at the age of 18. He has served as store manager, supervisor, and superintendent. He was named vice president and general manager of the New Orleans Division in 1963 and was elected a corporate vice president and president of the Southwestern Region in April, 1970.



Rear wall

In a concentrated redevelopment program involving capital expenditures of about \$66 million, our network of stores and support

facilities in 30 states and Canada took on a leaner, brighter look in fiscal year 1975.

We added some 3 million square

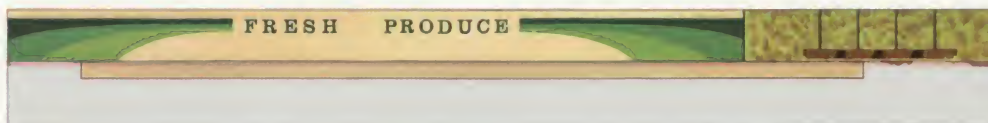
feet of modern sales-producing store area, while eliminating about 18 million square feet of unprofitable space.



Left wall

In the process, we:

- Opened 91 new stores; average size, 28,500 square feet.
- Closed 1,433 stores; average size, 12,974 square feet. We are in the



Right wall



Front wall

process of closing an additional 52 stores.

- Enlarged 32 stores; average enlargement 10,286 square feet. The area of these stores was 16,904 square feet before enlargement, 27,190 after.
- Remodeled, renovated or substantially enlarged 45 stores at a cost per store in excess of \$100,000.
- Performed minor remodelings—including relighting, painting, new decor, and addition of new equipment—on most of our existing 2,074 stores.
- Increased our average store size to 18,900 square feet, as compared

with 16,100 a year ago. We now have 150 supermarkets of more than 30,000 square-feet, as compared with 97 in 1974.

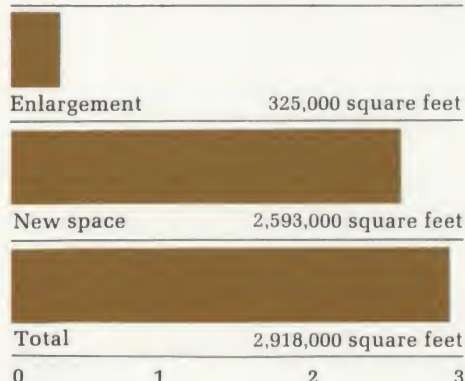
Property development is being directed out of a restructured and enlarged department based in headquarters. The department works closely with skilled operating personnel in each region, whose recommendations on any given real estate project reflect exhaustive study of all aspects of its business potential.

The department is now engaged in a concerted program to reduce the Company's mounting utility bill, which last year totaled some \$80

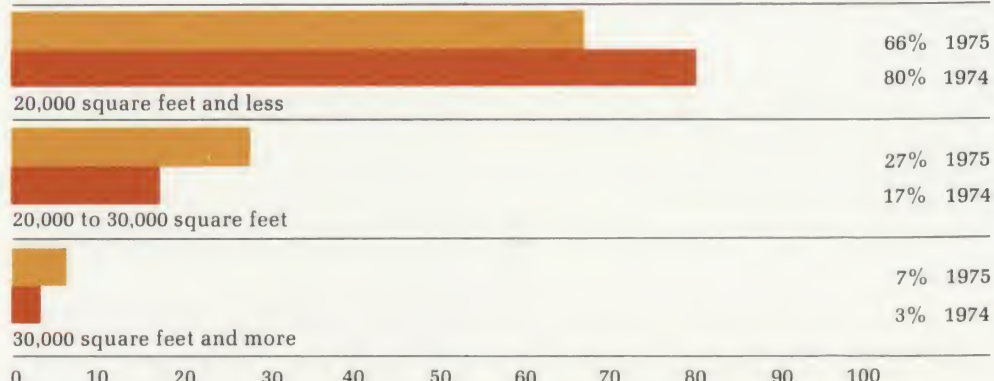
million and which is currently projected to rise 10 percent a year over the next decade. We feel utility costs can be controlled through application of sophisticated building design and construction, energy-efficient equipment, utility audits, and sound energy management at the store level.

With about \$100 million in capital funds earmarked for property development this year, the department expects to build about 55 new supermarkets and enlarge or do major remodeling on about 110 existing units.

New Building Area Added



Store Size Comparison



Fiscal 1975 Sales and Net Income

Fiscal 1975 comprised 53 weeks, whereas fiscal 1974 comprised 52 weeks. Sales for fiscal 1975 were \$6.5 billion, representing a decrease of \$337 million or 5% from the sales reported for fiscal 1974 during which the Company operated approximately 1,400 more stores. Fiscal 1975 sales of stores closed or to be closed under the Company's facilities closing program, amounting to \$401 million, are excluded from the statement of income, whereas sales of such units for fiscal 1974, amounting to \$1,458 million, are included in the statement of income. See "Facilities Closing Program" on page 14 for additional information on closed facilities. Results of operations for fiscal 1974 also include sales of \$185 million attributable to stores closed in fiscal 1974.

Perhaps the best indication of sales trend is the comparison of average weekly sales by quarter, exclusive of sales of stores closed in 1974 and 1975 or which remain to be closed under the facilities closing program.

Average Weekly Sales of Continuing Stores

(Millions)	1975	1974	Percent Change
First Quarter	\$106	\$100	+ 6
Second Quarter	119	97	+ 23
Third Quarter	127	98	+ 30
Fourth Quarter	132	97	+ 36

The average weekly sales volume per store increased from the fourth quarter 1974 level of approximately \$43,000 for stores not included in the facilities closing program to approximately

\$64,000 in the fourth quarter of fiscal 1975.

A summary of operating results by quarter is shown in the tables at the bottom of the page. The previously reported loss for the first quarter of fiscal 1975 has been restated to reflect a \$1.8 million deferred tax credit resulting from the change in the estimated service lives of equipment (discussed elsewhere in this report) made as of the beginning of the year. This tax credit, which amounted to \$7.2 million for the year, was not quantified until the second quarter, at which time one-half of the annual amount (\$3.6 million) was included in the reported results for the first six months of fiscal 1975.

Net income of \$4.3 million for fiscal 1975 is comprised of a pre-tax loss of \$32.1 million from ongoing operations, a credit of \$35 million representing net reductions in the Company's facilities closing reserve, a charge of \$7 million attributable to settlement of the Bray antitrust suit (discussed elsewhere in this report), a credit provision for income taxes of \$6.6 million, consisting principally of the \$7.2 million adjustment of deferred taxes referred to above, and a \$1.8 million extraordinary credit representing the utilization of a carryforward tax loss by a Canadian subsidiary. In addition, operating results have been affected by new management's program to restructure the organization, to modernize physical facilities, and to make other changes outlined in the chairman's letter to the stockholders to benefit long-term operations. The pre-tax loss of \$168.3 million in fiscal 1974 is after provision for the cost of closing facilities of \$200 million.

Quarterly Results and Common Stock Data

(Dollars in thousands)

Quarter	Sales		Earnings (Loss)	
	1975	1974	1975	1974
First	\$1,406,944	\$1,754,727	\$ (4,682)	\$ 10,298
Second	1,569,625	1,696,643	3,848	4,976
Third	1,699,463	1,719,476	2,417	6,632
Fourth	1,861,865	1,703,765	2,731	(178,977)
Total	\$6,537,897	\$6,874,611	\$ 4,314	\$ (157,071)

Per Share of Common Stock

Earnings (Loss)		Dividends Paid		Market Range	
1975	1974	1975	1974	1975	1974
\$ (.19)	\$.41	—	\$.15	12¼ - 8½	14¾ - 11¾
.16	.20	—	.15	13½ - 10	12⅞ - 10⅞
.09	.27	—	.15	13 - 10	10⅞ - 8⅞
.11	(7.19)	—	—	12⅞ - 9⅞	9½ - 6½
\$.17	\$ (6.31)	—	\$.45		

Fourth quarter of 1975 contains 14 weeks and includes an extraordinary credit of \$1,800,000. 1975 figures exclude results of facilities in closing program.

Facilities Closing Program

A reserve of \$200 million was established as of February 22, 1975 representing the estimated cost of a facilities closing program which contemplated the closing of approximately 1,250 unprofitable and marginal stores and certain related support facilities. Modifications to the program during fiscal 1975 ultimately increased the number of stores to be closed to approximately 1,360 and added additional support facilities. More than 1,300 of these stores and many of the support facilities have been closed, principally in the first half of the fiscal year, with the least possible disruption and inconvenience to customers and employees. Operating results of the stores and support facilities closed or to be closed have been charged to the reserve and excluded from fiscal 1975 results of operations (only from the beginning of each respective quarter for modifications in the program) but are included in the results for fiscal 1974.

Costs of \$86 million were charged to the reserve in fiscal 1975. These costs include losses from operations prior to closing, net loss on disposal of properties, employee severance payments and other benefits, costs of dismantling, moving and restoring leased properties and lease payments after the facilities were closed. The balance in the reserve at February 28, 1976 represents principally the present value of remaining lease obligations and estimated losses on properties to be disposed of.

The facilities closing reserve was reduced by \$35 million during fiscal 1975, including net

reductions of \$15 million and \$20 million as of the end of the second and third quarters, respectively. These reductions in the reserve were appropriate even though the number of stores and support facilities to be closed was increased by 77 stores plus additional support facilities in the second quarter at an estimated cost of \$16 million, decreased in the third quarter by 13 stores removed from the program and increased by 45 stores in the fourth quarter at an estimated cost of \$20 million. The stores added in the fourth quarter represent stores opened in the last five years which, because of their relatively recent construction, were not originally included in the closing program. Reductions in the reserve were possible principally because proceeds from sales of property exceeded amounts originally estimated, dispositions of lease obligations were more successful than anticipated and operating losses of stores closed were less than anticipated. The Company has disposed of the lease obligations on more than 1,000 stores through release, assignment, sublease, expiration or other settlement with the landlord.

Management does not anticipate any further modifications to the facilities closing program and believes that the reserve is adequate to cover the remaining closing program costs; however, future adjustments of the reserve are possible.

An analysis of the components of the facilities closing reserve and the charges to and adjustments thereof during fiscal 1975 follows:

Facilities Closing Program Reserve Analysis

(Millions)	Balance February 22, 1975	Charges	Adjustments (Net)	Balance February 28, 1976
Current liabilities	\$100	\$(71)	\$ 13 (a) (21) (b) 6 (c)	\$27
Property valuation	46	(15)	11 (a) (27) (b)	15
Non-current reserve	54		12 (a) (23) (b) (6) (c)	37
	\$200	\$(86)	\$(35)	\$79

(a) Increase in reserve for inclusion of additional units in program

(b) Reduction in reserve
(c) Transfer to current liabilities

Income Taxes

The fiscal 1974 provision for estimated cost of the facilities closing program is deductible for income tax purposes only as costs are actually incurred. The realization of the entire potential tax benefit of such costs was not considered assured beyond a reasonable doubt because of the Company's loss and limited income tax carryback position. Accordingly, only that portion (\$24 million) of the tax benefit which was considered assured, consisting principally of amounts equivalent to previously provided deferred taxes which would become due during the income tax loss carryforward period and the amount of the subsequently available income tax carryback, was reported for financial purposes. This amount was adjusted by an additional \$7.2 million in fiscal 1975 as a result of the decrease in the estimated service lives for financial reporting purposes of store and other equipment, discussed elsewhere in this report. The net reduction in the facilities closing program reserve in fiscal 1975 had no effect on the recorded tax benefits.

A Federal income tax refund of \$7.6 million was received in April 1976 which represents the entire available carryback of the fiscal 1975 operating loss. The remainder of the fiscal 1975 taxable loss of approximately \$100 million is available for carryforward through fiscal 1980. The net operating loss carryforward for financial statement purposes is approximately \$120 million. In addition, the Company has available unused investment tax credits of approximately \$14.3 million (fiscal 1972—\$2 million, fiscal 1973—\$2.4 million, fiscal 1974—\$4.7 million, fiscal 1975—\$5.2 million) which will expire after seven years from the year of credit.

The extraordinary credit included in the statement of income for fiscal 1975 represents the utilization by a Canadian subsidiary of its entire remaining income tax loss carryforward of approximately \$4 million. An equivalent amount is included as a provision in the net credit for income taxes in the statement of income. An additional \$2.8 million tax loss carryforward was utilized by the Canadian subsidiary in fiscal 1974, \$2.4 million of which was through deferral of depreciation to future periods for tax purposes.

The components of the (credit) provision for income taxes are shown in the tables below. The Company's effective income tax rates are (162%) for fiscal 1975 and (7%) for fiscal 1974. The

difference between the U.S. statutory rate of 48% and the effective rates in both years is attributable primarily to the recognition as a deferred tax credit of only that portion (\$7.2 million in fiscal 1975 and \$24 million in fiscal 1974) of the future tax benefit relating to the provision for cost of the facilities closing program as is considered assured of realization, the effective rate of the amortization of investment tax credits and the effective rates of state income taxes.

Provision (Credit) for Income Taxes

(Dollars in thousands)	Fiscal 1975	Fiscal 1974
Current:		
U. S. and Canadian State	\$(5,617) (25)	\$ 4,994 1,100
Investment Credit:		
Deferred Amortization	(6,800) (1,808)	4,850 (1,924)
Deferred U. S. and Canadian	7,650	(20,220)
Total	\$(6,600)	\$(11,200)

Deferred U.S. and Canadian Tax Provision (Credit)

(Dollars in thousands)	Fiscal 1975	Fiscal 1974
Provision for cost of closing facilities	\$(7,200)	\$(24,000)
Income tax refund from carryback of operating loss, provided for in 1974	7,800	—
Deferred investment tax credit for carryback period, adjusted in 1974	6,800	—
Insurance reserves	—	(1,902)
Depreciation	250	4,335
U. S. tax on undistributed Canadian earnings taxed at less than U. S. rate	—	1,382
Pension costs	—	237
Other	—	(272)
Total	\$ 7,650	\$(20,220)

Long-Term Debt

In December 1975, the Company concluded a \$150 million revolving credit agreement, expiring February 23, 1980, with a group of eleven banks and a 7½ year \$50 million term loan agreement with a group of four banks, replacing an earlier credit agreement which was to expire on May 31, 1976.

The \$50 million term loan bears interest at 124% of each bank's prime rate to February 24, 1979 and at 128% of prime thereafter. Interest requirements under the \$150 million revolving credit agreement consist of interest on borrowing at ¼% over each bank's prime rate to February 24, 1979 and at ½% over prime thereafter, plus a commitment fee of ½% per annum on the average daily unused portion of the commitment and a facility fee of ¼% per annum on the full amount of the commitment. Both agreements provide that advances and installments may be prepaid at any time without penalty.

With respect to the revolving credit agreement, there are informal arrangements with the banks to maintain compensating balances, expressed in bank collected balances. The Company is expected to maintain average monthly bank collected balances totaling approximately 10% of the commitment plus 10% of the loans outstanding. Such compensating balance requirements are not significant in relation to the Company's recorded cash balances.

The credit agreements, among other things, prohibit the declaration of dividends until such time as the Company realizes net income exclusive of reversals of the facilities closing reserve (as further defined in the agreements) for four consecutive quarters. Furthermore, aggregate dividend payments are limited to 15% of net income earned after February 28, 1976 until February 1978 and 30% thereafter. The Company, on a consolidated basis, is also required

to maintain: a current ratio of not less than 1.3 to 1 during fiscal 1976, and 1.4 to 1 thereafter; an excess of current assets over current liabilities of not less than \$160 million during fiscal 1976, \$200 million during fiscal 1977 and at increasing amounts thereafter up to \$300 million at February 24, 1980; and consolidated tangible net worth of not less than \$435 million through August 28, 1976, \$450 million thereafter through February 26, 1977, and at increasing amounts thereafter up to \$635 million at February 24, 1980, plus the amount of any reductions in the facilities closing program reserve subsequent to fiscal 1975. At February 28, 1976 current assets exceeded current liabilities by \$245 million and the current ratio was 1.6 to 1.

Long-term debt at February 28, 1976 consists of the \$50 million term loan, \$24 million outstanding under the revolving credit agreement and mortgages payable of \$4,520,000. The \$50 million term loan is repayable quarterly commencing November 1978 with eleven installments of \$2 million, followed by six installments of \$3 million and a final payment of \$10 million in February, 1983.

Long-term debt at February 22, 1975 comprised \$35 million of notes payable pursuant to a four bank commitment which was refinanced as discussed above and \$4,075,000 of mortgages payable.

During fiscal 1975 and 1974, average daily bank borrowings under revolving credit agreements amounted to \$42 million and \$29 million and the maximum amount payable at any month end was \$80 million and \$55 million, respectively. Average daily interest rates were 8.1% during fiscal 1975 and 10.7% during fiscal 1974. The average daily interest rate during fiscal 1975 for the term loan was 9.0%.

Capital Expenditures and Depreciation

The Company has a five year, \$500 million expansion program which includes the cost of new stores and support facilities and the cost of enlarging or remodeling many existing stores. This program will be financed in part from borrowings under the term loan and revolving credit agreements discussed elsewhere in this report.

Capital expenditures, principally for equip-

ping new supermarkets and renovating existing stores, were \$65.9 million in 1975. The 91 stores opened in fiscal 1975 averaged 28,500 square feet. Depreciation and amortization charges were \$53.7 million in fiscal 1975, including \$5.5 million resulting from the change in estimated service lives of equipment, and \$51.6 million in fiscal 1974.

Stockholders' Equity

Stockholders' equity amounted to \$448 million at February 28, 1976 or \$17.99 per share of common stock outstanding as of that date. The capital surplus account increased \$21,000 and \$9,000 in fiscal 1975 and 1974, respectively, representing the excess of proceeds over the aggregate par value of shares issued upon the exercise of stock options.

The Company has not paid a dividend since November 1974 and is precluded from doing so until such time as it has had a profit, before reversals of the facilities closing reserve, for four consecutive quarters. See the discussion under Long-Term Debt concerning certain additional restrictions on the Company's ability to pay dividends.

Stock Options

A stock option plan for granting to officers and key employees qualified or non-qualified options for the purchase of not more than 1,000,000 shares of common stock at not less than fair market value at grant dates and for periods not exceeding ten years was approved by stockholders on June 17, 1975.

During fiscal 1975, 363,000 non-qualified (ten-year period) and 225,000 qualified (five-year period) options were granted to purchase shares at market prices prevailing on the grant dates and 5,000 qualified options were cancelled. The price range for options granted is \$9.25 to \$12.56 a share and the aggregate option price for options outstanding at February 28, 1976 is \$5,894,000. At February 28, 1976, 417,000 options were available for future grants.

Non-qualified options are exercisable as follows: 225,000 at any time and as to the remaining 138,000, at cumulative 25% increments after each of the first through the fourth annual anniversaries of the grants. Qualified options are exercisable at cumulative 25% increments after each of the first through the fourth annual anniversaries of the grants.

At February 28, 1976, qualified options for 69,860 shares at \$9.625 a share (aggregate of \$672,000) are outstanding under a prior option plan, of which options for 43,060 shares are exercisable. During fiscal 1975 and 1974, respectively, options for 2,340 and 1,040 shares were exercised at \$9.625 a share and options for 184,100 and 42,100 shares, at prices ranging from \$9.625 to \$27.875 a share, were terminated.

Litigation

In its 1974 Annual Report, the Company reported on an antitrust judgment entered in favor of a Mr. Bray and five other cattle producers or feeders in the amount of \$32,627,081 plus attorneys' fees and costs subsequently determined at \$3,206,478, plus interest. The Company settled this action in 1975, and the action was dismissed with prejudice. The settlement agreement requires the Company to make payments totaling \$9,000,000 over the next four years. The present value of this settlement (approximately \$7,000,000) was charged to operations in fiscal 1975.

Three similar actions, alleging that the Company and other retail food chains had violated the Sherman Act by conspiring to fix wholesale meat prices at artificially low levels, filed in Texas, Nebraska and Iowa during 1974 have also been dismissed, the Iowa action as described in the 1974 Annual Report and the Texas and Nebraska actions pursuant to settlement agreements involving no significant cost to the Company.

During 1975 and 1976, seven additional suits based upon similar allegations were filed, one each in Texas, Nevada and Utah and two each in Iowa and California. Each of these suits names the Company and other retail food chains as defendants and asks damages and other relief which may include an injunction. In the three actions in which money damages are specified or estimated, the plaintiffs allege damages approximating \$72 million.

The Company also is a named defendant in an action in which partners in a citrus grove, who purport to act on behalf of a class of citrus fruit growers in the State of Florida allege viola-

tions of the antitrust laws by the Company in conspiring with other retail food chains and orange product processors to fix the wholesale price of citrus fruits at an artificially low level. They seek unspecified treble damages plus injunctive relief and attorneys' fees.

During the past year, an Initial Decision was rendered by an Administrative Law Judge of the Federal Trade Commission who found that the Company had violated the FTC and Robinson-Patman Acts in purchasing dairy products in the Chicago area, but dismissed charges that the Company had stabilized milk prices in that area. This Decision is now under review by the full Commission. While no monetary judgment is expected to result in that proceeding, whatever the final outcome, there is a related civil action in Chicago Federal Court in which plaintiffs assert antitrust violations and demand unstated treble damages on behalf of an alleged class of competitors in the Chicago area.

All of the above court actions are in preliminary pre-trial stages. Money damages awarded to plaintiffs in such suits, if any, would automatically be trebled and such a judgment would also include reasonable plaintiffs' attorneys' fees.

The Company denies all allegations of wrongdoing in the above actions. Because it is not possible to predict the ultimate outcome of any of these actions, no provision for possible resulting liability has been made in the accompanying financial statements.

The Company is also involved in various other claims, administrative agency proceedings and lawsuits arising out of the normal conduct of its business.

Retirement Plans

Retirement benefits for substantially all full-time and certain part-time employees are provided under the companies' retirement plans or by industry plans administered jointly by management and union representatives, with the major portion of such employees covered by industry plans.

The cost of all retirement plans amounted to \$50,092,000 and \$37,574,000 in fiscal 1975 and 1974, respectively. The companies' independent

actuaries estimate that vested benefits under the companies' plans exceeded the plans' assets by approximately \$55 million at December 31, 1975, the end of the plans' year, after giving effect to plan amendments as of January 1, 1976.

The Employee Retirement Income Security Act of 1974 resulted in several Company plan amendments as of January 1, 1976 which will not materially affect future pension expense.

Leases

Most operations of the companies are conducted in leased premises. The unexpired non-cancellable terms of such leases at February 28, 1976 range up to twenty-five years for store leases and thirty years for other leased facilities. The majority of the leases contain escalation clauses relating to property tax increases, and certain of the store leases provide for increases in rentals when sales at the stores exceed specified levels. Leases for rentals of other than real property are not significant.

The present value of the Company's remaining obligation under leases for facilities included in the closing program, net of estimated recoveries, has been provided for in the facilities closing program reserve. Accordingly, only leases relating to continuing operations are included below.

Rent expense, net of minor sublease rentals, for the fiscal years 1975 and 1974, and minimum annual rentals, net of minor sublease rentals, for leases in effect at February 28, 1976 are shown in the tables below.

None of the Company's lease obligations are capitalized. In conformance with a requirement of the Securities and Exchange Commission, the Company has classified as financing leases those

of its approximately 2,600 leases whose non-cancellable terms either assure the lessor recovery of his investment plus a reasonable return thereon or cover 75% or more of the economic life of the property.

The estimated present value of minimum rentals (net of amounts applicable to taxes and insurance) on noncapitalized financing leases at February 28, 1976 and February 22, 1975 amounted to \$94,671,000 and \$81,221,000, respectively. Interest rates ranging from 4.25% to 10% used in the present value computations resulted in weighted average interest rates of 7.6% and 7.9% in fiscal 1975 and 1974, respectively.

If all financing leases had been capitalized and the related property rights amortized on the straight-line method and interest expense recorded on the basis of the outstanding lease obligations, costs would have increased for fiscal 1975 and 1974 by approximately \$2,223,000 and \$1,554,000, respectively. The assumed amortization and interest costs for fiscal 1975 and 1974 would have been as follows: amortization—\$4,516,000 and \$3,239,000, respectively; interest—\$7,201,000 and \$4,985,000, respectively.

Rent Expense, Net of Minor Sublease Rentals

(Dollars in thousands)

Fiscal 1975	Financing Leases	Other Leases	Total
Minimum rentals	\$11,884	\$ 84,562	\$ 96,446
Contingent rentals	219	2,124	2,343
Total	12,103	86,686	98,789
Fiscal 1974			
Minimum rentals	\$ 8,855	\$108,609	\$117,464
Contingent rentals	110	1,458	1,568
Total	\$ 8,965	\$110,067	\$119,032

Minimum Annual Rentals, Net of Minor Sublease Rentals

(Dollars in thousands)

Year Ending in February	Financing Leases	Other Leases	Total
1977	\$ 11,556	\$ 76,991	\$ 88,547
1978	11,404	70,733	82,137
1979	11,404	64,151	75,555
1980	11,404	57,953	69,357
1981	11,404	51,979	63,383
1982-1986	56,698	197,063	253,761
1987-1991	55,708	133,355	189,063
1992-1996	35,140	70,009	105,149
1997-2004	11,854	524	12,378
Total	\$216,572	\$722,758	\$939,330

Following is a summary of the Company's accounting policies that significantly affect the determination of financial position and results of operation.

Fiscal year—The Company's fiscal year ends on the last Saturday in February. Fiscal 1975 ended February 28, 1976 and comprised 53 weeks while fiscal 1974 ended February 22, 1975 and comprised 52 weeks.

Principles of consolidation—The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All significant inter-company accounts and transactions have been eliminated in consolidation.

Facilities closing program—Fiscal 1975 operating results of stores included in the facilities closing program have been excluded from the statement of consolidated income (only from the beginning of each respective quarter for modifications in the program) and charged to reserves provided therefor, together with closing costs, ongoing lease payments and net losses on disposal of related property.

Foreign operations—In the fourth quarter of fiscal 1975, the Company changed its foreign currency translation policy to that recommended by the Financial Accounting Standards Board in its Statement No. 8. The changes from previous Company policy are the translation of inventories and certain deferred items at historical rates rather than at rates in effect at balance sheet dates, and the inclusion of unrealized translation gains or losses in income rather than in a reserve for foreign currency fluctuations consisting of cumulative net unrealized gains. The change was not applied retroactively because the effect on income in prior years and in each of the first three quarters of fiscal 1975 was not material. The reserve for foreign currency fluctuations amounting to \$1,137,000 at the end of the third quarter of fiscal 1975 (after a net credit of \$55,000 in the first three quarters) was credited to income in the fourth quarter.

At February 28, 1976, assets and liabilities of foreign subsidiaries have been translated at year-end rates except for inventories, net property and certain deferred items which have been translated at historical rates. Income and expense accounts, except cost of sales and depreciation and amortization, have been translated at average rates prevailing during the fiscal year.

Inventories—Inventories are stated at the lower of cost or market, with replacement cost generally being considered to represent market value. Cost is determined on the following bases: inventories in stores—average cost under the retail method; majority of remaining inventories—cost on a first-in, first-out basis. Raw materials and supplies, principally at manufacturing facilities, constitute approximately 6% of total inventories.

Properties—The Company leases a substantial portion of its facilities. Owned properties, consisting almost exclusively of manufacturing facilities and warehouses, and equipment are stated at cost. Store fixtures and leasehold improvements are stated at amortized cost. Major renewals and betterments are capitalized, whereas maintenance and repairs are charged to operations as incurred. As group depreciation generally is used, gains or losses on normal disposition of assets are not recognized until all assets in a group are fully depreciated or disposed of. Fully depreciated property is written off against the related depreciation reserve. Net losses on disposition of properties under the facilities closing program have been charged to the related reserve established as of February 22, 1975.

Depreciation and amortization—For financial reporting purposes, depreciation and amortization are provided, generally on the straight-line method, over the estimated useful lives of the respective assets. The estimated useful lives of store and other equipment, except automotive, were changed, as of the beginning of fiscal 1975, from ranges of 12½ to 15 years (annual rates of 6⅔% to 8%) to ranges of 10 to 12 years (annual rates of 8⅓% to 10%). As to such equipment on hand at the beginning of the year, the change is being accounted for prospectively through application of annual depreciation rates corresponding to the estimated lives for new equipment. Depreciation and amortization charged to operations in fiscal 1975 includes approximately \$5.5 million resulting from the reduction in equipment service lives. Approximate annual depreciation rates for other properties are as follows: Buildings—2% to 5%; store fixtures and leasehold improvements—generally from 10% to 12½%; and automotive equipment—14⅔% to 33⅓%.

Pre-opening costs—Expenses incurred in the opening of a new store are charged to expense as incurred.

Income taxes—Deferred taxes have been provided in prior years in recognition of timing differences between income for financial reporting and income tax purposes. No deferred taxes were provided in fiscal 1975 because of the Company's carryforward tax loss position. Investment tax credits are deferred and amortized over the estimated useful lives of related assets.

Deferred income taxes are provided on undistributed earnings of foreign subsidiaries, except that taxes of approximately \$7 million have not been provided on earnings considered to be permanently invested.

Retirement plans—Annual costs of the companies' retirement plans are based on actuarial

cost methods as supplied by independent consulting actuaries and consist of normal cost plus interest on prior service costs which are funded on a current basis. Annual actuarial gains and losses of the Company's retirement plans consistently have been amortized over a six-year period, except for gains arising from social security benefit increases which have been amortized over ten years and gains arising from extraordinary terminations (resulting from negotiated labor contracts) which have been amortized over twenty years.

Earnings (loss) per share—Net income (loss) per share is based on the weighted average number of common shares outstanding during the respective fiscal years. Stock options outstanding (common stock equivalents) had no dilutive effect.

Auditors' Opinion

Haskins & Sells
Certified Public Accountants

To the Board of Directors and Stockholders of The Great Atlantic & Pacific Tea Company, Inc.:

We have examined the consolidated balance sheet of The Great Atlantic & Pacific Tea Company, Inc. and subsidiary companies as of February 28, 1976 and February 22, 1975 and the related statements of consolidated income and retained earnings and of changes in consolidated financial position for the respective 53 and 52-week periods then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed under the caption Litigation in the Financial Review which accompanies the financial statements, the Company is a co-defendant in legal actions seeking monetary damages for alleged violations of Federal antitrust laws. Because of the uncertainty of the ultimate outcome of these actions, no provision for possible liability has been made in the financial statements.

In our opinion, subject to the effect on the financial statements of the resolution of the legal proceedings referred to in the preceding paragraph, such financial statements present fairly the financial position of the companies as of February 28, 1976 and February 22, 1975 and the results of their operations and the changes in their financial position for the respective 53 and 52-week periods then ended, in conformity with generally accepted accounting principles consistently applied.

Haskins & Sells

Two Broadway
New York, N.Y. 10004
May 3, 1976

Statement of Consolidated Income and Retained Earnings

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The Great Atlantic & Pacific Tea Company, Inc.

	53 Weeks to February 28, 1976 (Fiscal 1975)	52 Weeks to February 22, 1975 (Fiscal 1974)
(Dollars in thousands, except per share figures)		
Sales	\$6,537,897	\$6,874,611
Cost of merchandise sold	5,260,844	5,514,580
Gross margin	1,277,053	1,360,031
Store operating, general & administrative expense	1,311,692	1,326,601
Income (loss) from operations	(34,639)	33,430
Adjustment of (provision for) cost of closing facilities	35,000	(200,000)
Interest:		
Income—Primarily on temporary cash investments	1,987	2,083
Expense	(6,434)	(3,784)
Income (loss) before income taxes and extraordinary credit	(4,086)	(168,271)
Income taxes—Provision (credit)	(6,600)	(11,200)
Income (loss) before extraordinary credit	2,514	(157,071)
Extraordinary credit—Tax benefit of Canadian operating loss carryforward	1,800	—
Net income (loss)	4,314	(157,071)
Retained earnings—Beginning of year	41,235	209,500
Cash dividends	—	11,194
Retained earnings—End of year	\$ 45,549	\$ 41,235
Earnings (loss) per common share:		
Income (loss) before extraordinary credit	\$.10	\$ (6.31)
Extraordinary credit	.07	—
Net income (loss)	\$.17	\$ (6.31)
Cash dividends per common share		
	—	\$.45

Consolidated Balance Sheet

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Assets	(Dollars in thousands)	February 28,	February 22,
		1976	1975
Current assets:			
Cash		\$ 57,010	\$ 46,944
Short-term investments—at cost (approximates market)		13,988	11,772
Accounts receivable		35,206	28,865
Refundable income taxes		7,800	—
Inventories		518,201	572,269
Prepaid expenses		10,997	14,264
Total current assets		643,202	674,114
Property:			
Land		9,476	8,986
Buildings		80,738	78,895
Equipment		339,680	394,326
Total—at cost		429,894	482,207
Less accumulated depreciation		169,999	201,276
		259,895	280,931
Store fixtures and leasehold improvements, at amortized cost		94,279	105,958
		354,174	386,889
Less allowance for loss on property in facilities to be closed		15,000	46,000
Property-net		339,174	340,889
Other assets		6,901	5,705
Total		\$989,277	\$1,020,708
<hr/>			
Liabilities And Stockholders' Equity	(Dollars in thousands)		
Current liabilities:			
Current portion of long-term debt		\$ 272	\$ 266
Accounts payable		276,369	266,922
United States and foreign income taxes		1,447	4,109
Accrued salaries, wages and employee benefits		48,773	52,155
Accrued taxes, other than income taxes		18,240	13,173
Current portion of facilities closing reserve		27,500	100,000
Other accruals		26,732	23,466
Total current liabilities		399,333	460,091
Long-term debt		78,520	39,075
Deferred income taxes—net		11,809	4,159
Deferred income—principally investment tax credit		8,096	16,919
Facilities closing reserve and other liabilities		43,905	57,187
Stockholders' equity:			
Preferred stock—no par value; authorized—3,000,000 shares; issued—none			
Common stock—\$1 par value; authorized—40,000,000 shares; outstanding—1976—24,879,064 shares; 1975—24,876,724 shares		24,879	24,877
Capital surplus		377,186	377,165
Retained earnings		45,549	41,235
Total stockholders' equity		447,614	443,277
Total		\$989,277	\$1,020,708

See Financial Review and Summary of Significant Accounting Policies on pages 13 through 20.

Statement of Changes in Consolidated Financial Position

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	53 Weeks to February 28, 1976 (Fiscal 1975)	52 Weeks to February 22, 1975 (Fiscal 1974)
(Dollars in thousands)		
Source of funds:		
From operations:		
Net income (loss) before extraordinary credit*	\$ 2,514	\$ (157,071)
Expenses (income) not requiring (providing) working capital:		
Provision for (adjustment of) cost of closing facilities (non-current portion)	(33,000)	100,000
Depreciation and amortization	53,709	51,620
Deferred income taxes (non-current portion)	850	(25,430)
Deferred investment tax credit	(1,808)	2,926
Charge in lieu of current Canadian income tax	1,800	—
Foreign currency fluctuation reserve	(1,137)	—
Non-current portion of litigation settlement	4,800	—
Working capital provided from (used in) operations	27,728	(27,955)
Disposals of property	29,886	2,107
Proceeds from borrowings (long-term debt)	151,200	169,567
Other	(1,333)	72
Total	207,481	143,791
Disposition of funds:		
Expenditures for property	65,880	80,363
Current maturities and repayment of long-term debt	111,755	132,766
Cash dividends	—	11,194
Total	177,635	224,323
Increase (decrease) in working capital	29,846	(80,532)
Working capital—Beginning of year	214,023	294,555
Working capital—End of year	\$243,869	\$ 214,023
*Extraordinary credit does not provide working capital		
Increase (decrease) in components of working capital:		
Cash and short-term investments	\$ 12,282	\$ (4,264)
Accounts receivable	6,341	(1,474)
Refundable income taxes	7,800	—
Inventories	(54,068)	28,127
Prepaid expenses	(3,267)	(3,075)
Net change in current assets	(30,912)	19,314
Accounts payable and current portion of long-term debt	9,453	(5,680)
United States & foreign income taxes	(2,662)	(595)
Accrued expenses	4,951	6,121
Current portion of reserve for facilities to be closed	(72,500)	100,000
Net change in current liabilities	(60,758)	99,846
Increase (decrease) in working capital	\$ 29,846	\$ (80,532)

See Financial Review and Summary of Significant Accounting Policies on pages 13 through 20.

The following are management's comments on significant changes during the past six years. These comments should be read in conjunction with the Six Year Summary of Operations on page 25 and the discussion of fiscal 1975 operating results starting on page 13.

Fiscal 1975 Compared to Fiscal 1974

Sales for fiscal 1975 were \$6.538 billion or 4.9% below sales for fiscal 1974. This small decrease is attributable to the closing of approximately 1,360 stores under the facilities closing program and was concentrated principally in the first and second quarters of fiscal 1975. By the fourth quarter, average weekly sales were running 1.5% ahead of the prior year.

Gross margin as a ratio of sales was 19.5% in fiscal 1975 as compared to 19.8% in fiscal 1974, reflecting the Company's increased price competitiveness.

Store operating, general and administrative expenses increased from 19.3% of sales in fiscal 1974 to 20.1% in fiscal 1975. This higher expense level reflects costs of our store refurbishing program, the settlement of litigation as discussed in the Financial Review, increased advertising, and the general inflationary increases in wages, utilities and other costs of doing business. Interest expense increased due to the higher level of borrowing in fiscal 1975.

As pointed out in the Financial Review, net income for fiscal 1975 is primarily attributable to the \$35 million net reversal in the facilities closing reserve and the \$6.6 million credit provision for income taxes.

Fiscal 1974 Compared to Fiscal 1973

While 1974 sales of \$6.875 billion were a record high, the 1.9% rate of increase over 1973 did not keep pace with the rate of inflation and trended downward in the fourth quarter. Gross margin as a ratio of sales was 1.5% higher in 1974, reflecting the severe inflationary pressures placed on the Company's expense structure, which increased almost a like percentage. The cost of utilities, wages, fringe benefits and store packaging supplies rose sharply, particularly after the cessation of economic controls on April 15, 1974.

1974 pre-tax income of \$31.7 million, exclusive of the \$200 million provision for the facilities closing program, compares with \$19.1 million in 1973. Neither result is considered satisfactory as a return on equity nor as a percentage of sales. The net loss in 1974 after a tax credit of \$11.2 million was \$157.1 million, and net income in the preceding year was \$12.2 million after deducting income taxes of \$6.9 million.

Significant Changes Prior to Fiscal 1973

In fiscal 1972 an extensive investment was made in a program to reverse a declining trend in the Company's market share and recover customer patronage. A gain in sales of 16% over the preceding year was achieved. However, the reduced margin and other costs of the program resulted in a net loss of \$51.3 million. The phase-out of trading stamps in favor of lower margins was also completed in 1972.

Fiscal 1971 net income of \$14.6 million was adversely affected by the U.S. Government imposed price freeze and economic controls and by a slight sales decrease from the preceding year when net income was \$50.1 million.

Six-Year Summary of Operations

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(Dollars in thousands, except per share figures)

For the fiscal year

	1975 (c)	1974	1973	1972	1971	1970
<i>Summary of operations</i>						
Sales	\$ 6,537,897	6,874,611	6,747,689	6,368,876	5,508,508	5,664,025
Cost of merchandise sold	\$ 5,260,844	5,514,580	5,513,573	5,267,409	4,416,905	4,523,288
Gross margin	\$ 1,277,053	1,360,031	1,234,116	1,101,467	1,091,603	1,140,737
Store operating, general and administrative expenses	\$ 1,311,692	1,326,601	1,213,212	1,207,478	1,071,674	1,049,412
Income (loss) from operations	\$ (34,639)	33,430	20,904	(106,011)	19,929	91,325
Adjustment of (provision for) cost of closing facilities	\$ 35,000	(200,000)	—	—	—	—
Interest:						
Income—primarily on temporary cash investments	\$ 1,987	2,083	1,662	1,286	2,124	3,635
Expense	\$ (6,434)	(3,784)	(3,439)	(2,252)	(501)	(601)
Income (loss) before income taxes and extraordinary credit	\$ (4,086)	(168,271)	19,127	(106,977)	21,552	94,359
Income taxes—provision (credit):						
United States income taxes:						
Current	\$ (7,600)	4,258	3,168	(51,484)	2,891	33,883
Deferred—net	\$ 7,400	(19,105)	2,687	656	4,619	6,916
State income taxes	\$ (25)	1,100	600	(1,700)	433	2,730
Foreign income taxes:						
Current	\$ 1,983	736	571	—	64	4,192
Deferred	\$ 250	(1,115)	(821)	(1,628)	(656)	(2,000)
Investment credit:						
Deferred	\$ (6,800)	4,850	2,502	580	1,855	641
Amortized	\$ (1,808)	(1,924)	(1,807)	(2,124)	(2,273)	(2,132)
Total income taxes	\$ (6,600)	(11,200)	6,900	(55,700)	6,933	44,230
Income (loss) before extraordinary credit	\$ 2,514	(157,071)	12,227	(51,277)	14,619	50,129
Extraordinary credit	\$ 1,800	—	—	—	—	—
Net income (loss)	\$ 4,314	(157,071)	12,227	(51,277)	14,619	50,129
Per cent of sales	.07	(2.28)	.18	(.81)	.27	.89
Depreciation and amortization	\$ 53,709	51,620	49,570	48,870	48,536	50,079
Retirement plans	\$ 50,092	37,574	27,770	21,313	18,091	9,659
Number of employees	92,900	105,000	113,800	123,600	113,600	125,000
Number of stores	2,074	3,468	3,680	3,940	4,264	4,427
Total store-area (square feet)	39,202,000	55,763,000	56,354,000	57,590,000	58,628,000	58,685,000
<i>Balance Sheet Data</i>						
Total assets	\$ 989,277	1,020,708	1,018,599	1,020,819	972,934	978,870
Working capital	\$ 243,869	214,023	294,555	329,437	324,683	346,510
Current ratio	1.61	1.47	1.82	2.01	2.21	2.35
Additions to property	\$ 65,880	80,363	55,035	48,458	61,987	60,062
Property—net	\$ 339,174	340,889	360,253	358,096	374,137	353,652
Long-term debt	\$ 78,520	39,075	2,274	55,000	—	—
Stockholders' equity	\$ 447,614	443,277	611,532	599,301	665,503	680,112
<i>Common Stock Data</i>						
Income (loss) per share						
before extraordinary credit (a)	\$.10	(6.31)	.49	(2.06)	.59	2.02
Extraordinary credit per share (a)	\$.07	—	—	—	—	—
Net income (loss) per share (a)	\$.17	(6.31)	.49	(2.06)	.59	2.02
Cash dividends per share	—	.45	—	.60	1.175	1.30
Stockholders' equity per share (b)	\$ 17.99	17.82	24.58	24.09	26.75	27.34
Shares outstanding (a)	24,878,012	24,876,644	24,875,259	24,875,224	24,875,224	24,875,010
Number of stockholders	40,900	42,100	43,500	45,000	53,400	47,900

(a) Based on the weighted average number of common shares outstanding each year.

(b) Based on the number of common shares outstanding at each year-end.

(c) 53 weeks; all other years contained 52 weeks.

Directors	<p>William M. Agee Executive Vice President and Director Bendix Corporation</p> <p>Harold J. Berry Vice Chairman of the Board Merrill Lynch, Pierce, Fenner & Smith Inc.</p> <p>R. Manning Brown, Jr.* Chairman of the Board and Chief Executive Officer New York Life Insurance Company</p>	<p>William Corbus Vice Chairman— Government Affairs</p> <p>Charles F. Detmar, Jr. Partner; Cahill Gordon & Reindel Attorneys</p> <p>Edwin D. Dodd Chairman of the Board and Chief Executive Officer Owens-Illinois, Inc.</p> <p>Grant C. Gentry President and Chief Administrative Officer</p>	<p>Barbara Barnes Hauptfuhrer Director, Vanguard Group of Investment Companies</p> <p>Robert F. Longacre Vice Chairman and Chief Operating Officer</p> <p>John M. Schiff General Partner; Kuhn, Loeb & Co.</p> <p>Jonathan L. Scott Chairman of the Board of Directors and Chief Executive Officer</p>	<p>Hobart Taylor, Jr. Partner; Dawson, Riddell, Taylor, Davis & Holroyd Attorneys</p> <p>Edward J. Toner Partner; Collins, Toner & Rusen Attorneys</p> <p>Forwood C. Wiser Jr. President, Director and Chief Operating Officer, Pan American World Airways, Inc.</p>
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* Term expires June 24, 1976

Officers	<p>Jonathan L. Scott Chairman and Chief Executive Officer</p> <p>Grant C. Gentry President and Chief Administrative Officer</p> <p>Robert F. Longacre Vice Chairman and Chief Operating Officer</p> <p>William Corbus Vice Chairman— Government Affairs</p> <p>William I. Walsh Executive Vice President</p> <p>Malcolm E. Anderson Vice President— Advertising</p> <p>John L. Dean Vice President— Management Information Services</p>	<p>Ivor D. Donaldson Vice President—Store Design and Construction</p> <p>Allan A. Feder Vice President and President— Manufacturing Group</p> <p>M. Alan Fineberg Vice President— Real Estate</p> <p>Roger L. Galassini Vice President— Public Affairs</p> <p>George D. Hamilton Vice President— General Merchandise</p> <p>Arthur S. Hillhouse, Jr. Vice President— Warehousing and Distribution</p>	<p>H. Nelson Lewis Vice President— Industrial Relations</p> <p>Willis D. Lonn Vice President— Procurement and Supply</p> <p>Thomas F. Mayer Vice President— Research and Special Projects</p> <p>Arthur C. Melervey Secretary</p> <p>H. Prentice Merritt Vice President— Property Development</p> <p>Earl N. Pilgrim Vice President— Purchasing</p> <p>M. Dean Potts Vice President— Finance and Treasurer</p>	<p>Robert M. Quinn Controller</p> <p>Marvin A. Snider Vice President— Meat Merchandising</p> <p>Darrell V. Stiffler, Jr. Vice President— Personnel and Industrial Relations</p> <p>Charles J. Tackney Vice President— Training</p> <p>Robert G. Ulrich Vice President and General Counsel</p> <p>Dale S. Watson Vice President— Produce Merchandising</p> <p>William H. Watson Vice President— Affirmative Action</p>
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Regional Presidents	Robert T. Blade Vice President and Regional President	Frederick C. Kennedy Vice President and President, Canadian Company	Frank R. Olivito Vice President and Regional President	Thomas F. Sheridan Vice President and Regional President
	John J. Cairns, Jr. Vice President and Regional President			
		John J. Miles Vice President and Regional President	Lowell A. Peters Vice President and Regional President	Robert L. Spencer Vice President and Regional President

Officers of Subsidiary and Manufacturing Operations	Randall A. Bostwick President Super Market Service Corp.	Paul E. Coty Vice President and General Manager Coffee Division	Arleigh G. Larson Vice President and General Manager National Dairy Division	Wallace F. Williams Vice President and General Manager Ann Page Division
	Donald S. Carley President Compass Foods			
		John J. Kelly Vice President and General Manager National Bakery Division		

Division Vice Presidents	Ernest G. Barbella Long Island	Richard J. Flositz Jacksonville	Donald E. Lentz Columbus	Walter C. Rosier Pittsburgh
	Michael A. Bozza Cleveland			
	Jerry Y. Brashear New Orleans	Charles L. Hunter Springfield	James L. Madden Detroit	Roy H. Ruebenstahl Louisville
	George F. Brown Philadelphia	Donald G. Jackson Scranton	C. Garfield McDade Baltimore	Ralph H. Saquella Richmond
	Walter E. Burtis Paterson	Robert S. James Atlanta	Theodore G. Otto, Jr. Kansas City	Henry W. Schmarr Indianapolis
	Laurence J. Dowling Charlotte	Blaine L. Kocoloski Altoona	James J. Phelan Albany	John C. Sherrard Raleigh
	Alan G. Elliott, Jr. St. Louis	P. Dean Ritchey Chicago	Donald L. Braun Milwaukee	Joseph P. Twill Newark
		Lyle E. Leeson Boston	Emmett J. Ritchie Birmingham	William J. Vitulli Bronx

Executive Offices

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Montvale, New Jersey 07645
Telephone 201-573-9700

**Transfer Agent and
Registrar**

Morgan Guaranty Trust Company
Of New York
New York, N.Y.

Common stock of the Company is traded on the New York Stock Exchange under the symbol "GAP," and has unlisted trading privileges on the Boston, Midwest, Philadelphia-Baltimore-Washington, Pittsburgh, Cincinnati and Detroit Stock Exchanges.

The Annual Meeting will be held on Thursday, June 24, 1976 at 10 a.m. at The Sheraton Valley Forge Hotel in King of Prussia, Pennsylvania. Stockholders are cordially invited to attend.

Copies of the Form 10-K submitted to the Securities and Exchange Commission will be provided to stockholders upon written request to the Secretary.

